



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MARSHALL COUNTY FISCAL COURT**

Fiscal Year Ended 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MARSHALL COUNTY FISCAL COURT

Fiscal Year Ended 2001

The Auditor of Public Accounts has completed the Marshall County Fiscal Court audit for fiscal year ended 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$6,190,441 from the beginning of the year, resulting in a cash surplus of \$10,931,302 as of June 30, 2001.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$8,005,000. Future collections of \$13,498,905 are needed over the next 20 years to pay all bonded debt principal and interest.

Report Comments:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$284,539 To Protect Deposits
- Occupational Tax Receipts Should Be Deposited On A Daily Basis

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Marshall County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Marshall County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Marshall County Refuse Disposal District or the Marshall County Exceptional Center. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marshall County Refuse Disposal District is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Marshall County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

In our opinion, based upon our audit and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Marshall County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 19, 2002 on our consideration of Marshall County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Marshall County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$284,539 To Protect Deposits
- Occupational Tax Receipts Should Be Deposited On A Daily Basis

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 19, 2002

MARSHALL COUNTY OFFICIALS

Fiscal Year Ended 2001

Fiscal Court Members:

Mike Miller	County Judge/Executive
Jerry English	Commissioner
Gordon Hargrove	Commissioner
Jerome Hicks	Commissioner

Other Elected Officials:

Jeff Edwards	County Attorney
Roger Ford	Jailer
Dan Duke	County Clerk
Carol Fisk	Circuit Court Clerk
Terry Anderson	Sheriff
Ann Riley	Property Valuation Administrator
Mitchell Lee	Coroner

Appointed Personnel:

Tim York	County Treasurer
Angie Murphy	Occupational Tax Collector
Emily West	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

MARSHALL COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND
FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 257,334
Due from Payroll Revolving Account	49,707
Notes Receivable (Note 4)	108,930

Road and Bridge Fund:

Cash	168,349
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Jail Fund:

Cash	443,806
------	---------

Federal Grant Fund:

Cash	331,350
------	---------

Occupational Tax Fund:

Cash	271,202
Due from Payroll Revolving Account	50,000

Occupational Tax Administrator Fund:

Cash	2,232,750
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Payroll Revolving Account - Cash

99,707

Self-Insurance Account - Cash

94,168	\$ 4,107,303
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Special Revenue Fund Type

Emergency 911 Fund:

Cash	\$ 213,591
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Wireless 911 Fund:

Cash	57,589	271,180
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Capital Projects Fund Type

Public Properties Corporation Fund:

Cash	6,572,913
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The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
June 30, 2001
(Continued)

Assets and Other Resources (Continued)

Assets (Continued)

Debt Service Fund Type

Public Properties Corporation Fund:

Cash	\$	382,419
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Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years for Landfill		
Postclosure Care (Note 7)		3,044,459

Debt Service Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for Bond Principal Payments (Note 5)		7,622,581
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Total Assets and Other Resources		\$ 22,000,855
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Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Deferred Revenue (Note 4)	\$	108,930
Amounts to be Provided in Future Years for Landfill		
Postclosure Care (Note 7)		3,044,459
Self-Insurance Account		94,168
Payroll Revolving Account:		
Due to General Fund		49,707
Due to Occupational Tax Fund		50,000
	\$	3,347,264

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Liabilities (Continued)

Debt Service Fund Type

Public Properties Corporation Fund:		
Bond Principal Not Matured (Note 5)	\$	8,005,000

Fund Balances

Reserved:

General Fund Type

Funeral Grant Fund		331,350
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Special Revenue Fund Type

Emergency 911 Fund	\$	213,591	
Wireless 911 Fund		<u>57,589</u>	271,180

Capital Projects Fund Type

Public Properties Corporation Fund		6,572,913
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Unreserved:

General Fund Type

General Fund	\$	307,041	
Road and Bridge Fund		168,349	
Jail Fund		443,806	
Occupational Tax Fund		321,202	
Occupational Tax Administrator Fund		<u>2,232,750</u>	<u>3,473,148</u>
Total Liabilities and Fund Balances			<u><u>\$ 22,000,855</u></u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MARSHALL COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 10,328,024	\$ 3,547,203	\$ 1,508,291	\$ 1,184,358
Transfers In	5,192,783	765,000	400,000	
Bond Proceeds	8,005,000			
Total Cash Receipts	<u>\$ 23,525,807</u>	<u>\$ 4,312,203</u>	<u>\$ 1,908,291</u>	<u>\$ 1,184,358</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 10,644,780	\$ 4,060,285	\$ 1,557,743	\$ 1,181,193
Transfers Out	5,192,783	615,000	300,000	
Bonds:				
Interest Paid	175,109			
Cost of Issuance Fees	271,511			
Construction Costs	1,044,183			
Cash Management Fees	7,000			
Total Cash Disbursements	<u>\$ 17,335,366</u>	<u>\$ 4,675,285</u>	<u>\$ 1,857,743</u>	<u>\$ 1,181,193</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 6,190,441	\$ (363,082)	\$ 50,548	\$ 3,165
Cash Balance - July 1, 2000	<u>4,740,861</u>	<u>620,416</u>	<u>117,801</u>	<u>440,641</u>
Cash Balance - June 30, 2001	<u><u>\$ 10,931,302</u></u>	<u><u>\$ 257,334</u></u>	<u><u>\$ 168,349</u></u>	<u><u>\$ 443,806</u></u>

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended 2001
(Continued)

General Fund Type				Special Revenue Fund Type	
Local Government Economic Assistance Fund	Federal Grant Fund	Occupational Tax Fund	Occupational Tax Administrator Fund	Emergency 911 Fund	Wireless 911 Fund
\$ 550	\$ 16,346 15,000	\$ 22,138 4,000,000	\$ 3,379,953	\$ 339,246	\$ 57,589
\$ 550	\$ 31,346	\$ 4,022,138	\$ 3,379,953	\$ 339,246	\$ 57,589
\$ 18,435	\$ 48,360 15,000	\$ 3,510,186 550,000	\$ 3,700,000	\$ 268,578	\$
\$ 18,435	\$ 63,360	\$ 4,060,186	\$ 3,700,000	\$ 268,578	\$ 0
\$ (17,885) 17,885	\$ (32,014) 363,364	\$ (38,048) 309,250	\$ (320,047) 2,552,797	\$ 70,668 142,923	\$ 57,589
\$ 0	\$ 331,350	\$ 271,202	\$ 2,232,750	\$ 213,591	\$ 57,589

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended 2001
 (Continued)

	Capital Projects Fund Type	Debt Service Fund Type
	Public Properties Corporation Justice Center Fund	Public Properties Corporation Justice Center Fund
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$ 259,887	\$ 12,463
Transfers In		12,783
Bond Proceeds	7,472,718	532,282
Total Cash Receipts	\$ 7,732,605	\$ 557,528
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$
Transfers Out	12,783	
Bonds:		
Interest Paid		175,109
Cost of Issuance Fees	271,511	
Construction Costs	1,044,183	
Cash Management Fees	7,000	
Total Cash Disbursements	\$ 1,335,477	\$ 175,109
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 6,397,128	\$ 382,419
Cash Balance - July 1, 2000	175,784	
Cash Balance - June 30, 2001	\$ 6,572,912	\$ 382,419

The accompanying notes are an integral part of the financial statements.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Marshall County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Emergency 911 Fund and Marshall County Public Properties Corporation as part of the reporting entity. Management has also included the Marshall County Refuse Disposal District which was audited by other auditors and whose report is included in Appendix B as part of the reporting entity.

1) Emergency 911 Fund

The Marshall County Emergency 911 Board is a legally separate organization with all of the rights and obligations of such. Fiscal Court does not appoint the Board. The Board has the right to buy, sell, lease, and mortgage property, and issue bonded debt in its own name. However, the Board has authorized Fiscal Court to perform all bookkeeping responsibilities. All Emergency 911 receipts and disbursements are budgeted, received, and paid through Fiscal Court; the County Treasurer includes Emergency 911 as a separate fund on Marshall County's financial reports. Financial information for the Emergency 911 Board is blended within Marshall County's financial statements.

2) Marshall County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC: legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Marshall County's financial statements.

3) Marshall County Refuse Disposal District

The Refuse Disposal District has the right to buy, sell, lease, and mortgage property in its own name. The District also has the right to sue and be sued in its own name. Fiscal Court does not have the authority to approve or modify the District's budget, approve or modify rate or fee changes affecting revenues, or veto, overrule, or modify decisions of the District's board of directors. However, Fiscal Court does appoint a voting majority of the District's governing body. Also, Fiscal Court has assumed the obligation to finance the District's deficits by providing financial support to the District: Fiscal Court budgets at least \$400,000 each fiscal year to help fund the District. Fiscal Court paid \$1,050,000 to the District during this fiscal year. Therefore, Fiscal Court is considered financially accountable for the District. Financial information for the Refuse Disposal District is discretely presented in a separate audit performed by other auditors and included as Appendix B to our audit report.

MARSHALL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Additional - Marshall County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Marshall County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Marshall County Fiscal Court's Fund Types, a definition of each, and County funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Marshall County General Fund Type includes the following County funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Occupational Tax Fund, and Occupational Tax Administrator Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Emergency 911 Fund and Wireless 911 Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Properties Corporation Fund is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the County utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Marshall County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

MARSHALL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, include certificates of deposit, and investments are stated at cost.

KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Marshall County Fiscal Court:

Marshall County Hospital
 Jonathan Creek Water District
 Aurora Sewer District

Marshall County Library
 North Marshall Water District
 Draffenville Sewer District

G. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the Industrial Development Board is considered a joint venture of Marshall County Fiscal Court.

Note 2. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The County's contribution rate for hazardous employees was 16.78 percent.

MARSHALL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of July 6, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$284,539 of public funds uninsured and unsecured.

The County's deposits are categorized below to give an indication of the level of risk assumed by the County as of July 6, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by the County's agent in the County's name	\$ 2,650,594
FDIC Insured	100,000
Uncollateralized and uninsured	<u>284,539</u>
Total	<u><u>\$ 3,035,133</u></u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Receivables

- A. The County loaned \$30,000 to Elva/New Harmony/Oak Level Fire District on July 21, 1999 for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. As of June 30, 2001, principal balance due was \$29,000.
- B. The County loaned \$30,000 to Fairdealing Fire District on January 11, 2000, for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. As of June 30, 2001, principal balance due was \$24,000.
- C. The County loaned \$70,000 to Jonathan Creek Water District on January 7, 2001, for the purpose of repairing a water tower. Terms of the agreement stipulate a 2-year repayment schedule at 4.5% interest. The Water District is in substantial compliance with the terms of the agreement. As of June 30, 2001, principal balance due was \$55,930.

Note 5. Long-Term Debt

Marshall County Public Properties Corporation entered into a new bond issue, Marshall County Public Properties First Mortgage Revenue Bonds (Justice Center Project) Series 2000, on October 1, 2000, for the purpose of paying the cost of constructing a new county justice center facility and the cost of issuance of the bonds. The issue amount of the bonds was \$8,005,000. The bonds will mature beginning March 1, 2003. The Administrative Office of the Courts (AOC) will be responsible for 74% of the cost of the bonds. The Public Properties Corporation will be responsible for the remaining balance of the cost. The outstanding balance as of June 30, 2001, was \$8,005,000.

The following represents future maturities of long-term debt:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2001-2002	\$ 420,263	\$
2002-2003	420,263	210,000
2003-2004	409,237	215,000
2004-2005	397,950	235,000
2005-2006	385,612	245,000
Thereafter	<u>3,842,999</u>	<u>7,100,000</u>
Totals	<u>\$ 5,876,324</u>	<u>\$ 8,005,000</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Related Party Transactions

Marshall County Fiscal Court participated in the following related party transactions.

- A. During the fiscal year, the County conducted business with the Timber Bridge Company of Kentucky for culverts and bridge materials. In January 2001, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he was employed as a part-time salesman for Timber Bridge, and earned in excess of \$5,000 during the preceding calendar year. It is our understanding that the County Judge/Executive abstained from voting to accept the bid of Timber Bridge. A letter, dated August 17, 2001, from Timber Bridge Company of Kentucky, states that the County Judge/Executive did not receive commissions on sales in Marshall County. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.
- B. During the fiscal year, the County maintained deposits with the Bank of Benton. In January 2001, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he owned an interest of at least \$10,000 in the Bank of Benton, and earned in excess of \$5,000 during the preceding calendar year from this interest. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

Note 7. Landfill Closing

The Marshall County Landfill has been closed to dumping, and the County is in the process of meeting post-closure requirements. It is estimated that these post-closure requirements will cost the County \$3,044,459. The County expects to pay an estimated \$101,482 a year for the next 30 years. Total cost includes an adjustment of 3% for inflation. The 30-year period is also an estimated time frame for meeting all the requirements for closing the landfill. The County expended \$720,470 for post-closure in fiscal year ended June 30, 2001. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Note 8. Insurance

For the fiscal year ended June 30, 2001, Marshall County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 9. Health Insurance

The Marshall County Fiscal Court has established a self-insurance fund to provide health insurance for all county employees. The County pays 75% of the insurance premiums for all county employees with the remaining 25% to be funded through payroll deductions. A third party administrator processed all of the self-insurance claims. During the fiscal year, the Self-Insurance Account had a beginning balance of \$27,625, receipts of \$1,336,405, and expenditures of \$1,269,862, leaving an ending balance of \$94,168. Beginning with January 1, 2002, the County terminated the self-insurance fund and began providing health insurance through the State of Kentucky.

Note 10. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the Jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the Jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Marshall County Jail Canteen Fund had income of \$10,961, less cost of goods sold of \$1,502, less other expenses \$5,234, leaving net income at \$4,225 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

Note 11. Grant Revenue

Marshall County was awarded a grant for the Tri County Area Drug Task Force during fiscal year ended June 30, 2001. The County received and expended \$204,126, of grant funds. The United States Justice Department - State Pass Through was the grantor who provided the funding.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MARSHALL COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended 2001

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 3,630,000	\$ 3,547,204	\$ (82,796)
Road and Bridge Fund	1,373,966	1,508,291	134,325
Jail Fund	1,099,500	1,184,358	84,858
Local Government Economic Assistance Fund	10,100	550	(9,550)
Federal Grant Fund	60,000	16,346	(43,654)
Occupational Tax Fund	3,720,000	22,138	(3,697,862)
<u>Special Revenue Fund Type</u>			
Emergency 911 Fund	317,000	339,246	22,246
Wireless 911 Fund	49,000	57,589	8,589
Totals	<u>\$ 10,259,566</u>	<u>\$ 6,675,722</u>	<u>\$ (3,583,844)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 10,259,566
Add: Budgeted Prior Year Surplus			<u>1,673,000</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 11,932,566</u>

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SCHEDULE OF OPERATING REVENUE

MARSHALL COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended 2001

Revenue Categories	GOVERNMENTAL FUND TYPES				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 5,702,052	\$ 5,376,565	\$ 325,487	\$	\$
In Lieu Tax Payments	290,321	290,321			
Excess Fees	215,981	215,981			
Licenses and Permits	75,446	75,446			
Intergovernmental Revenues	2,894,434	2,836,845	57,589		
Charges for Services	472,165	472,165			
Miscellaneous Revenues	201,541	193,505	3,520	4,515	1
Interest Earned	476,084	198,011	10,239	255,372	12,462
Total Operating Revenue	<u>\$ 10,328,024</u>	<u>\$ 9,658,839</u>	<u>\$ 396,835</u>	<u>\$ 259,887</u>	<u>\$ 12,463</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MARSHALL COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,709,530	\$ 1,687,293	\$ 22,237
Protection to Persons and Property	1,665,900	1,518,595	147,305
General Health and Sanitation	1,336,875	1,173,748	163,127
Social Services	392,464	391,926	538
Recreation and Culture	726,463	693,520	32,943
Roads	3,189,376	3,081,868	107,508
Capital Projects	14,000	13,365	635
Administration	2,401,958	1,815,887	586,071
TOTAL BUDGET - GENERAL FUND TYPE	\$ 11,436,566	\$ 10,376,202	\$ 1,060,364
Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 334,512	\$ 242,497	\$ 92,015
Administration	161,488	26,081	135,407
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 496,000	\$ 268,578	\$ 227,422

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Marshall County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 19, 2002. We did not audit the financial statements of the Marshall County Refuse Disposal District. Other auditors whose reports have been furnished to us audited those financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Marshall County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$284,539 To Protect Deposits
- Occupational Tax Receipts Should Be Deposited On A Daily Basis.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marshall County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 19, 2002

COMMENTS AND RECOMMENDATIONS

MARSHALL COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended 2001

NONCOMPLIANCES

- 1) The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$284,539 To Protect Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institutions, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institutions or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of July 6, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$284,539 of public funds uninsured and unsecured.

County Treasurer Tim York's Response:

This issue was discussed with management personnel of Firstar-US Bank after their acquisition of Mercantile Bank. At that time we were assured that adequate pledges would be maintained. Subsequent to being informed by the Auditor that deposits at Firstar-US Bank were unsecured, we had an additional discussion with Firstar-US Bank management. We emphasized that a continued business relationship between Marshall County Fiscal Court and Firstar-US Bank would be contingent on our accounts being federally insured or secured by pledges for the total deposit amount. We were again assured that this would be the case.

- 2) Occupational Tax Receipts Should Be Deposited On A Daily Basis

The Occupational Tax Administrator did not deposit receipts on a daily basis. The Occupational Tax Administrator normally makes a weekly deposit, but sometimes only makes deposits every two weeks. The State Local Finance Officer, under the authority of KRS 68.210, established minimum accounting requirements, which include depositing receipts on a daily basis. We recommend these procedures be followed at all times.

County Treasurer Tim York's Response:

We agree with this finding and the recommendation will be implemented.

PRIOR YEAR FINDINGS

- The County's Financial Statement Should Include All Funds
- The County Should Strengthen its Expenditure Process

These findings were corrected.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

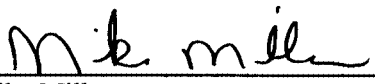
MARSHALL COUNTY FISCAL COURT

Fiscal Year Ended 2001

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MARSHALL COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Marshall County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Mike Miller
County Judge/Executive



Tim York
County Treasurer

AUDIT OF MARSHALL COUNTY REFUSE DISPOSAL DISTRICT

**MARSHALL COUNTY
REFUSE DISPOSAL DISTRICT**

FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2001

AUDIT REPORT
&
FINANCIAL STATEMENTS

**MARSHALL COUNTY REFUSE
DISPOSAL DISTRICT**

For the fiscal year ended

June 30, 2001

KIM FOUNTAIN
CERTIFIED PUBLIC ACCOUNTANT

TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

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KIM FOUNTAIN

CERTIFIED PUBLIC ACCOUNTANT

TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

MEMBER,
*American Institute
of CPA's*

♦
MEMBER,
*Kentucky Society
of CPA's*

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall County Refuse Disposal District
Benton, Kentucky

I have audited the statement of assets, liabilities, and fund balances arising from cash transactions of the Marshall County Refuse Disposal District as of June 30, 2001, and the related statement of cash receipts, cash disbursements and changes in cash balances for the year then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As recommended by the State Local Finance Officer, pursuant to Kentucky Revised Statutes (KRS) 68.210, the accompanying financial statements are prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the aforementioned financial statements present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions of the Marshall County Refuse Disposal District as of June 30, 2001, and the related cash receipts, cash disbursements, and changes in cash balances for the year then ended, on the basis of accounting described in Note 1.



Kim Fountain
Certified Public Accountant
Benton, Kentucky
January 15, 2002

**MARSHALL COUNTY REFUSE DISPOSAL DISTRICT
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE
ARISING FROM CASH TRANSACTIONS
JUNE 30, 2001**

ASSETS

Current Assets:

Cash in Bank-checking	\$ 295,591.49
Cash in Bank-liquid certificate of deposit	<u>485.85</u>

TOTAL ASSETS	<u>\$ 296,077.34</u>
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LIABILITIES AND FUND BALANCE

Liabilities:

None	\$ 0.00
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Fund Balance	<u>296,077.34</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 296,077.34</u>
------------------------------------	----------------------

See notes to financial statements

**MARSHALL COUNTY REFUSE DISPOSAL DISTRICT
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCE
FOR THE YEAR ENDED JUNE 30, 2001**

CASH RECEIPTS:

District Taxation	\$ 1,093,431.22	
Waste Tire Grant	1,328.81	
Transfer from fiscal court	1,150,000.00	
Sale of Equipment	88,250.00	
Recycling Income	1,669.62	
Interest	8,780.54	
Total Receipts	<u> </u>	\$ 2,343,460.19

CASH DISBURSEMENTS:

Wages & Payroll taxes - Note 2	704,352.72	
Maintenance & Supplies	30,234.96	
Utilities and telephone	13,581.19	
Trailer and equipment leases	13,440.00	
Employee retirement - Note 3	40,546.21	
Fuel and Oil	34,869.24	
Commissioner Fees	10,200.00	
Insurance	154,138.38	
Office expense & advertising	2,942.59	
Machine hire, dirt	619,700.62	
Uniforms	16,401.99	
Physicals & Medical	5,205.00	
Miscellaneous	57.43	
Well testing and monitoring	104,460.33	
Capital outlay	118,672.03	
Waste disposal contract	303,385.04	
Lot leases	4,000.00	
Licenses & Permits	276.00	
Travel	169.88	
Training	1,195.00	
Total Disbursements	<u> </u>	<u>2,177,828.61</u>

Increase (decrease) in Cash Balance	165,631.58
Cash Balance, July 1, 2000	<u>130,445.76</u>
Cash Balance, June 30, 2001	<u><u>\$ 296,077.34</u></u>

See notes to financial statements

MARSHALL COUNTY REFUSE DISPOSAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The District prepares its financial statements on the basis of cash receipts and disbursements; consequently, certain revenue is recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Also, fixed assets are recorded as an expense in the year of purchase and as revenue in the year of sale, rather than as an asset as required by accounting principles generally accepted in the United States of America. Note proceeds and retirement are recorded as receipts and disbursements, rather than as a liability.

NOTE 2. WAGES AND PAYROLL TAXES

The amount in this category on the financial statements includes gross wages of \$661,740.37 plus employer's share of social security taxes (calculated after health insurance deductions) and unemployment insurance. This category also includes a small amount equal to the difference between actual amounts withheld for social security, federal, state and local taxes versus taxes actually paid (remitted) during the fiscal year. The employer's portion of health insurance premiums was paid by the County until March, 1993 and the District did not reimburse the County for them. After that point, the District began paying for the insurance.

NOTE 3. RETIREMENT PLAN

All full time employees are covered under the County Employee's Retirement System (CERS) of the State of Kentucky, a cost sharing, multiple-employer, public employees retirement system, defined benefit pension plan. Funding for the plan is provided through payroll withholding of 5% and a district contribution of 7.17% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$661,740.37. The payroll for employees covered under CERS was \$557,843.70.

The contribution requirement for CERS for the year ended June 30, 2001, was \$68,438.51, which consisted of \$40,546.21 from the district and \$27,892.30 from the employees. The contribution requirements for the years ended June 30, 2000 and 1999, was \$60,459.31 and \$54,138.05, respectively.

Benefits under the plan will vary based on final compensation, years of service, and other factors as fully described in the plan documents. Copies of the plan's stand-alone financial statements are available from the plan administrator.

MARSHALL COUNTY REFUSE DISPOSAL DISTRICT
NOTES TO FINANCIAL STATEMENTS *(Continued)*
JUNE 30, 2001

NOTE 4. OTHER PERTINENT INFORMATION

The State of Kentucky mandated that all landfills not in compliance with state requirements concerning preparations of landfills for use be closed by June 30, 1992. However, there was still a need for the Marshall County Refuse Disposal District to operate the county dumpsters and transporting of refuse to private disposal enterprises. The District has several transfer stations at various points in the county where county residents may bring their refuse for disposal. The stations are fenced in and are open only during certain hours when they are overseen by District employees.

NOTE 5. DEPOSITS

At June 30, 2001, the carrying amount of the District's deposits was \$296,077.34 and the bank balance was \$ 326,952.32. Of this amount, \$100,000 was covered by FDIC insurance, and \$226,952.32 was unsecured. The bank holds pledged collateral in the name of the Marshall County Fiscal Court; however, they could not confirm whether those securities would be sufficient as collateral for both the Fiscal Court and Refuse District funds.

NOTE 6. POST-EMPLOYMENT BENEFITS

In accordance with COBRA requirements, eligible employee are offered insurance coverage after termination.

KIM FOUNTAIN

CERTIFIED PUBLIC ACCOUNTANT

TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

MEMBER,
American Institute
of CPA's

♦
MEMBER,
Kentucky Society
of CPA's

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Marshall County Refuse Disposal District
Benton, Kentucky

I have audited the financial statements of the Marshall County Refuse Disposal District, as of and for the year ended June 30, 2001, and have issued my report thereon dated January 15, 2002. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Marshall County Refuse Disposal District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to management of the Marshall County Refuse Disposal District, in a separate letter dated January 15, 2002.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the Marshall County Refuse Disposal District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of the Marshall County Refuse Disposal District, in a separate letter dated January 15, 2002.

This report is intended solely for the information and use of the board and management and is not intended to be and should not be used by anyone other than these specified parties.

Kim Fountain

Benton, Kentucky
January 15, 2002

MANAGEMENT LETTER

To the Board of Directors
Marshall County Refuse Disposal District

I have audited the financial statements of the Marshall County Refuse Disposal District, Kentucky as of and for the year ended June 30, 2001, and have issued my report thereon dated January 15, 2002.

As a part of my audit, I noted the following:

- 1) The bank balance at the end of the year was in excess of the amount insured by FDIC. At that time there were no pledged securities in the name of the Refuse District to cover the uninsured balance. However, during the course of the audit, the Treasurer made arrangements to have securities pledged in the name of the Refuse District in an amount sufficient to cover the uninsured balances.
- 2) We noted several instances where bills were paid from statements rather than directly from invoices. In several instances this resulted in invoices being paid twice. It appeared credit was given for most of the overpayments. However, this could not be verified in all cases. Every effort should be made to obtain a copy of each invoice before payment is made. Invoices and payments should also be reconciled to statements whenever possible.
- 3) Several payments were not supported by proper documentation. In some cases the invoices were held by the County Road Department as the invoice included items for both departments. Every effort should be made to obtain a copy of all invoices paid.
- 4) We noted that Board members are generally paid a monthly fee for their services. Other board members have health insurance premiums paid on their behalf. As these amounts are not included in payroll, a Form 1099 should be issued to each board member each calendar year for the amount of payments received or value of insurance premiums paid on his behalf.

I appreciate the opportunity to work with the District and wish to thank the Treasurer and his staff for their cooperation during the course of the audit.

Sincerely



Kim A. Fountain, CPA
January 15, 2002

